

**FINANCIAL PERFORMANCE ANALYSIS TO REFORMULATE
BUSINESS STRATEGY CASE STUDY: BANK SYARIAH MANDIRI KCP XYZ**

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Abstract—The purpose of this research is to analyzing Financial Performance of KCP XYZ of PT Bank Syariah Mandiri in order to reformulate business strategy and its implementation plan. The strategy formulation is conducted with evaluating its current performance as a first stage element. Financial Performance analysis by 4 financial ratios; ROA, BOPO, NCOM, FDR and 4 growth ratios; Growth of Assets, Growth of Depositor Funds, Growth of Financing and Growth of Net Earnings, is chosen to evaluate the position of KCP XYZ comparing to other nine KCP under supervision of Regional R. This research is supported by the primary data (financial data) and secondary data (literature review). Based on financial performance and SWOT analysis results, the KCP XYZ strategy generated is concentration growth strategy. The alternative strategies to accomplish the growth strategy are generated through Ansoff matrix that include: market penetration, product development, market expansion to new markets, and product diversification. Through FGD, the decision of selected strategies and the implementation priority are: market penetration, product development strategy and market expansion. The implementation of the selected strategies are through developing integrated programs and action plan at each functional departments

Keyword: Financial ratios, Growth Ratios, SWOT, Ansoff Matrix

1. Introduction

Since working as the head of sub-branch XYZ, many problems come and go. One of the interesting problems that come into mind was the effort to fulfill the requirement of company performances set by the stake holders. BSM KCP XYZ recorded a growth of assets of 306% in 2010 from originally amount of Rp3,97 billion in 2009 to Rp16,09 in 2010; and growth of 41% to Rp22,63 billion in 2011. Financing increased by 126% in 2010 from original amount of Rp.13,48 billion in 2009 to Rp30,42 billion; and growth of 45% to Rp44,14 billion in 2011. Growth of funding in 2010 was 273% in 2010 from original amount of Rp4,15 billion to Rp 15,45 billion in 2010; and increased by 34% to Rp20,72 billion in 2011. Meanwhile Nett Revenue Margin increased by 917% in 2011 from original amount of Rp0,17 billion in 2010 to Rp1,75 billion in 2011.

The Objective of the research is to propose strategy formulation by Financial Performance Analysis of KCP XYZ to improve its performance for management of KCP XYZ. The implementation for the strategy and result will be monitored and evaluated by sub-branch manager (Kepala KCP). The research scope is limited to performing Strategy Formulation based on Financial Performance Analysis to generate alternative strategies and formulation of implementation plan of the selected strategies for KCP XYZ start from 2013.

2. Business Issue Exploration

Figure 2.1 The evaluation process of KCP XYZ An application of the evaluation on current performance of an organization by using a series of questions to use in evaluating an implemented strategy. Such a

strategy review is usually initiated when a gap appears between financial objectives and the expected results of current activities (Wheelen and Hunger, 2010: 378). For KCP XYZ, since there is a gap appear between KCP XYZ's financial objectives and its expected results from current activities, this strategy review can be initiated. Figure below represent the strategy review of KCP XYZ.

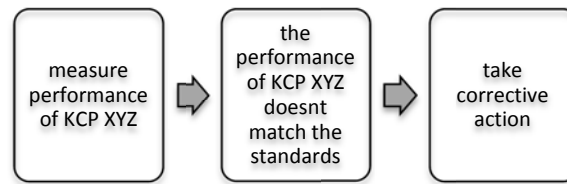


Figure 1. The Evaluation process of KCP XYZ

A. Conceptual Framework

The internal issues/problems facing by KCP XYZ is its poor financial performance relatively to other KCP which still under expectation of the company. It means that the existing strategy still not produce the desired results. To find the root cause, the existing strategy in KCP XYZ should be evaluated. The evaluation starts with the question "Did the existing strategies produce the desired results?". Figure below represent the steps in evaluating an implemented strategy (existing strategy) in KCP XYZ.

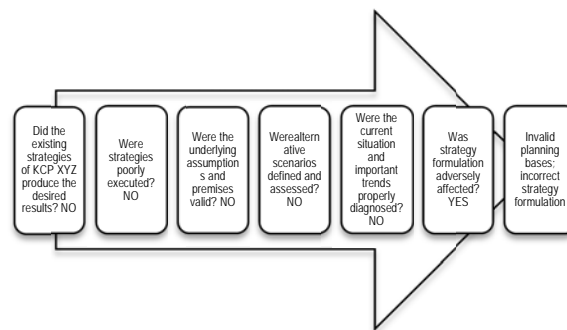


Figure 2. Process of Evaluating an Existing Strategy in KCP XYZ

Process of Strategy formulation consist of 3 (three) stages. The first stage is Input Stage, this stage consist of Evaluating Current Performance as the basic input information needed to formulate strategies. Second stage Formulate the vision, mission statements and objectives. Generate feasible alternative strategies by aligning key external and internal factors. And the last stage is decision stage, which is selecting the best strategy to be implemented for achieving KCP XYZ's objective. There are 9 steps in strategy formulation. Below is the step for strategy formulation (Wheelen and Hunger, 2010:77); Evaluate Current Performance Results, Examine and Evaluate the Current mission, objectives, policies, Review Corporate Governance, Scan and Asses External and Internal Environment, Analyze, Select Strategic Factors, Review, Generate and Evaluate Strategic Alternatives and Select and Recommend Best Alternative.

B. Method of Data Collection and Analysis

This thesis will try to make an assessment based on financial data BSM KCP XYZ for 3 years. There are five main steps undertaken so as to make an assessment. First, determine the formula which is based on the development and achievement of the banking industry. This assessment uses the criteria of key financial ratios and growth during the last 3 years since it opened. Second, gather the financial statements BSM KCP XYZ comprising the balance sheet and profit and loss for 3 years. Third, process numbers with different ratios and growth that have been defined. Fourth, an analysis of the values and financial ratios and growth obtained either by comparing the values and the ratios obtained for

the previous year or the parent company, the BSM national consolidation. Fifth, provide alternative solutions to management in order to increase the performance of KCP XYZ

Financial Performance of KCP XYZ, will be simplified in 8 financial ratios indicator that are; Return on Assets (ROA), Beban Operasional per Pendapatan Operasional (BOPO), Financing to Deposits Ratio (FDR), Net Core Operational Margin (NCOM), Growth of Assets, Growth of Depositor Funds, Growth of Financings and Growth of Net Earnings. This simplification based on the performance measurement of bank that was conducted by Infobank Magazine in 2012. The figure below shows the indicators of Financial Performance of KCP XYZ.

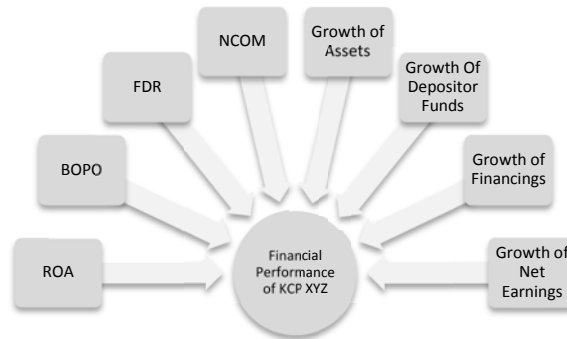


Figure 3. Process of Evaluating an Existing Strategy in KCP XYZ

C. Analysis of Business Situation

Based on the scores on financial ratios, weighted in order to obtain the final value. KCP XYZ is in the 6th position with a final score of 4,8 out of 10.

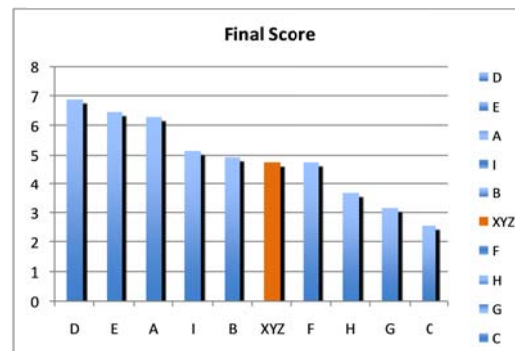


Figure 4. The Final Score of KCP XYZ compared to other branch

Figure 5 shows the rank of KCP XYZ based on each indicators. The figure shows that rank of Growth of Financing of KCP XYZ is higher than 9 other KCPs, meanwhile the Growth of Net Earnings of KCP XYZ is lower than others.

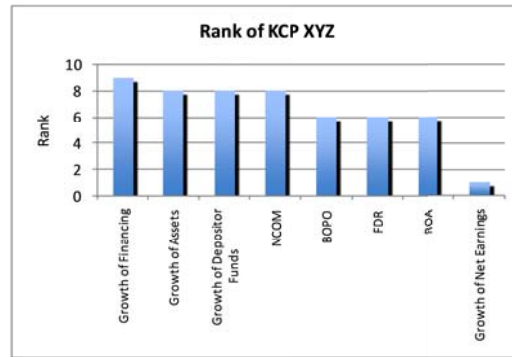


Figure 5. Rank of KCP XYZ compared to other branch

Evaluation of the financial performance shows that KCP XYZ now is in rank-6 among other KCPs. Next step is to review its vision, mission and objectives based on actual position. The vision of KCP XYZ is *to be the number 3 among other KCPs in regional R in the end of 2015*. The mission of KCP XYZ is *Provide High Quality Products and Services by Committed to Operational Excellence* and the objectives is *reach financial performance as best as can be*. The financial objective is calculated by reviewing the trend of growth of KCP XYZ. The financial objectives should be realizable

The next step is to generate feasible alternative strategies by aligning key external and internal factors. The method that being used is SWOT analysis to asses external and internal key factors. SWOT is an acronym used to describe the particular Strengths, Weaknesses, Opportunities, and Threats that are strategic factors for a specific company. SWOT analysis shouldn't only result in identification of an organization's distinctive competencies but also in the identification of opportunities that KCP XYZ is not currently able to take advantage of due to a lack of appropriate resources (Wheelen and Hunger, 2010: 224). In this research, the scanning of internal and external factors of KCP XYZ have been done. The results of the external factors scanning is the Opportunities and Threats for KCP XYZ, meanwhile the results of internal factors scanning is the strengths and weakness of KCP XYZ have.

The factors being weighted and being rated. The weight column must total 1,00, the higher the weight, the more important is this factor to the current and future success of KCP XYZ. Meanwhile the rating is given based on KCP XYZ's specific response to that particular factor. Then weighted score is obtained from the multiplication of weight and rating of a factor. Table below shows the Strengths, Weakness, Opportunities and Treats of KCP XYZ and score of each factor. The weight and rating is obtained by conducting Focus Group Discussion between Sub branch manager (Kepala KCP XYZ) and 4 deputies (OO, AO, OG, and KWM).

Table 1. External Factors (Opportunities and Threats)

External Factors			Weight	Rating	Weighted Score
Opportunities	O1	Diversity of product and service of sharia banking as result of sharia banking regulation	0.17	4	0.67
	O2	Public curiosity of sharia banking	0.13	2	0.27
	O3	Net banking needs for sharia banking	0.10	2	0.20
	O4	Creative industry emerging because of sharia banking facilitation	0.07	2	0.13
	O5	Growth phase of sharia banking	0.03	2.5	0.08
	Total				1.35
Threats	T1	Competition with other bank	0.25	2.5	0.63
	T2	Competition with other financial institution	0.17	2.5	0.42
	T3	Sharia banking negative perception	0.08	3	0.25
	Total				1.29

Table above shows the Opportunities and Threats that being faced by KCP XYZ. The Factors being weighted and rated.to calculate the weighted score. The score of opportunities factors being subtracted by the threats factors, give the final score which is positive, that is, $\Sigma O - \Sigma T = 1.35 - 1.29 = 0.06$. Table 2 below shows the Strengths and weaknesses KCP XYZ has. The Factors being weighted and rated to calculate the weighted score. The score of opportunities factors being subtracted by the threats factors, give the final score which is positive, that is, $\Sigma S - \Sigma W = 1.81 - 1.58 = 0.23$.

Table 2. Internal Factors (Strength and Weakness)

Internal Factors			Weight	Rating	Weighted Score
Strength	S1	Conducive working environment	0.11	3.5	0.39
	S2	High motivation resource to learn	0.10	3.5	0.34
	S3	Experienced head branch in financing	0.08	3.5	0.29
	S4	Outlet Location	0.07	4	0.28
	S5	Top down command line	0.06	4	0.22
	S6	Partnership with other party	0.04	4.5	0.19
	S7	various customized products	0.03	2	0.06
	S8	Availability of low cost fund	0.01	3	0.04
	Total				1.81
Weakness	W1	Heterogenic competency of team member	0.20	3.5	0.70
	W2	New and inexperienced team member	0.15	3.00	0.45
	W3	System Migration	0.10	3	0.30
	W4	Standardize Outlet	0.05	2.5	0.13
	Total				1.58

Based on the Grand strategy Matrix, the position of KCP XYZ is on the quadrant I "Growth" with the coordinate $\Sigma O - \Sigma T = 1.35 - 1.29 = 0.06$ and $\Sigma S - \Sigma W = 1.81 - 1.58 = 0.23$. This means that in facing the current external environment situations and the internal conditions, the best strategy that KCP XYZ should follow is Growth Strategy. Figure 6 shows the Grand Strategy Matrix of the KCP XYZ positions.

The Growth Strategy is appropriate for KCP XYZ based on the situations that represent as opportunities that its internal strengths likely can take and materialize them as advantages.

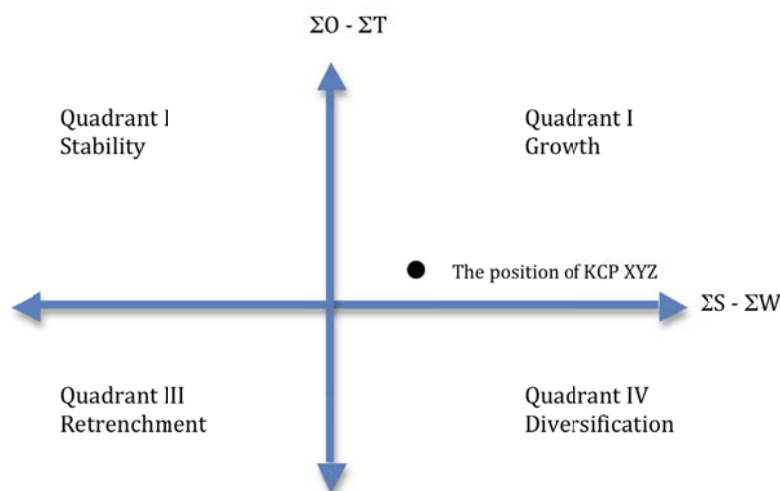


Figure 6. Grand Strategy Matrix for KCP XYZ

3. Business Solution

By pursuing growth strategy, KCP XYZ will achieve growth in assets, Depositor Funds, Financing and Net Earnings or its combinations. Igor Ansoff proposed matrix by considering ways to grow. There are 4 possible strategies for growth, which explained in Table 3.

Table 3. Ansoff Matrix

	Existing Product	New Product
Existing Market	Market Penetration	Product Development
New Market	Market Development	Product Diversification

(Source: Phillips Kotler, 2006:50)

D. Alternative of Business Solution

By considering the current KCP XYZ's position and its external and internal strategic factors and based on the Ansoff Matrix, there are some alternative growth strategies that KCP XYZ can choose to increase revenue.

1. Increase sales of its existing products in its existing market (market penetration)
2. Product development to serve its current markets
3. Seeks new markets to sell its existing products
4. Enter into another segment with diversification products.

The alternative strategies generated in the matching stage reveal the feasible alternative strategies that KCP XYZ may follow. A Focus Group Discussion (FGD) has established at November 7th 2012 to

evaluate the available alternative strategies, then decide whether to implement all of these strategies or select some of the best strategies.

The members of FGD are:

1. Head of KCP XYZ
2. Operational Officer of KCP XYZ
3. Account Officer of KCP XYZ
4. Rahn Officer of KCP XYZ
5. Head of Micro Outlet of KCP XYZ

The set alternative strategies for KCP XYZ that to be evaluated is:

- Strategy 1: market penetration
 Strategy 2: product development
 Strategy 3: market development
 Strategy 4: product diversification

The FGD need to determine the priority among the selected strategies.

1. Determine criteria or attributes by which the selected strategies be assessed or evaluated to make decision :
 - a. Culture of KCP XYZ
 - b. Competency of KCP XYZ
 - c. Technology
2. Assign a rating
3. Calculate the final score

Table 4 shows the results of FGD in prioritizing the selected strategies. The table shows that the score for strategy 1 is highest among others. Therefore, KCP XYZ prioritize selected strategies should be done as follow; Market Penetration and Product Development selected for short term strategy (within 2 years to come), Market Development and Product diversification selected for long term strategy (more than 2 years to come).

Table 4. Prioritizing Selected Strategies

Strategy	Criteria			Score
	Culture of KCP XYZ	Competency of KCP XYZ	Technology	
Strategy 1 Market Penetration	8	8	8	24
Strategy 2 Product Development	8	7	8	23
Strategy 3 Market Development	7	7	8	22
Strategy 4 Product Diversification	7	7	7	21

E. Analysis of Business Solution

The functional strategies for KCP XYZ be categorized into marketing strategy, operations strategy, financial strategy and human resource strategy.

Table 5. Functional Strategy For KCP XYZ

No	Functional	Strategy
1	Marketing Strategy	Market Penetration
		Product Development
2	Operations Strategy	Operational Excellence
3	Human Resource Strategy	Learning Organization

This Functional Strategy needs implementation that being summarized in Action Plan. Action plan states what actions are going to be taken, by whom, during what time frame and with what expected results. In order to achieve certain future position, KCP XYZ needs strategy map. Strategy maps provide such a tool that they give employees a clear line of sight into how their jobs are linked to the overall objectives of their organization, enabling them to work in a coordinated, collaborative fashion toward the company's desired goals. The maps provide a visual representation of a company's critical objectives and the crucial relationships among them that drive organizational performance. The greatest benefit of strategy maps is their ability to communicate strategy to an entire organization. And from it, the Key Performance indicator can be constructed. Table 8 shows the Key Performance Indicator of KCP XYZ from four different perspectives that are Financial Perspective, Customer Perspective, Internal Process Perspective and People Development Perspective (this perspective as the other way for Learning and Growth Perspective).

The Financial Perspective consist of four Indicators that are: Growth of Financing, Growth of Depositor Funds, Growth of Assets, and Growth of Net Earnings. The current condition is stated in "As-Is Value" column, while the "to-be condition" is stated in "target-value" column. The Gap between these columns is the delta that should be reach by the proposed strategy in this final project. The Customer Value consist of three indicators that are Value of Service Excellence, Average Product Type per Customer, and Average Product Quantity per Customer. In this perspective, it is also stated the current value and the target value.

Table 6. Key Performance Indicators for KCP XYZ

Key Performance Indicator	As Is Value	Target Value
A. Financial		
1 Growth of Financing	25 billion IDR	30 billion IDR
2 Growth of Depositor Fund	15 billion IDR	25 billion IDR
3 Growth of Asset	16 billion IDR	30 billion IDR
4 Growth of Net Earning	2.3 billion IDR	3 billion IDR
B. Customer		
1 Value of Service Excellence	67%	80%
2 Average Product Type per Costumer	1.02	min 3
3 Average Product Quantity per Costumer	30 million IDR	min 250 million IDR
C. Internal Process		
1 Product Adoption Rate SLA (Service Level Agreement)	3wk	max 5 days
2 Compliance	60%	100%
3 Audit Score	75%	80%
D. People Development		
1 Product Knowledge Certification	70%	85%
2 Internalization Shared Value	2hr/month	2hr/wk

The Internal Process Perspective consists of three indicators; Product Adoption Rate, SLA (Service Level Agreement) Compliance, and Audit Score. Meanwhile in People Development Perspective, there are two indicators; Product Knowledge Certification and Internalization of Shared Values. In these perspectives, the “as-is value” and “target-value” also given in those column.

4. Conclusion and Implementation Plan

Since there are three Functional Strategy; therefore 3 action plan programme should be conducted. The implementation for Marketing strategy that are Market Penetration and Product Development is the Account Planning and Bundling Product, which is will be conducted with marketing team as the owner of the programme. Officer Gadai (OG), Account Officer (AO) and Kepala Warung Mikro (KWM) as the PICs of the action plans. The implementation for Operation Strategy is Operational Excellence which is will be conducted lead by Operational Officer (OO). And the implementation for Human Resource Strategy is Go ETHICS. This Program is acronym from Corporate Shared Values that are Excellence, Teamwork, Humanity, Integrity and Customer Focused. The Implementation of this program will be directly lead by Kepala KCP. Table 7 shows the functional strategy and program objectives for each strategy.

Action plan states what actions are going to be taken, by whom, during what time frame and with what expected results.

Table 7. Program objectives for KCP XYZ

No	Functional	Functional Strategy	Program Objective
1	Marketing Strategy	Market Penetration Product Development	Account Planning and Product Bundling
2	Operations Strategy	Operational Excellence	Operational Excellence
3	Human Resource Strategy	Learning Organization	Go ETHICS

The Program Objectives being obtained by conducting five program activities, that are identify 24 best customers, Find further information about their financial transactions character, Account Planning and create Bundling Product, giving solution to customer and measuring the results. Table 8 shows these program activities.

Table 8. Program Activities for Marketing Strategy

No	Program Activities
1	Identify 24 best customer
2	Find further information about their financial transactions character
3	Account Planning + Create Bundling Product
4	Giving Solution to customer
5	Measure the results

Table 9 below shows the action steps for Marketing Program, with the responsible party and time frame of the action.

Table 9. Action Steps marketing For KCP XYZ

No	Action steps	Responsibility	week
1	Prepare and search database	OO	2
	Discuss with team	AO	
	Decide on 24 best customers	AO, OG, KWM	
2	Solicit customers	AO, OG, KWM	2
	Calling and meeting with customers		
	Gather further information		
	Mapping the financial transaction character		
3	Looking for customer needs	AO, OG, KWM	3
	Search the products and service that meet the requirement from customer		
	Adjust and customized the product so that becoming bundling products		
4	Meeting with customer to propose the bundling product	AO, OG, KWM	4
	Adjustment		
	Closing		
5	Monitoring	AO, OG, KWM	5
	Visit the customer to search for any complaints (if any) or another business opportunities		
	Take corrective action (if needed) or deepening the business relationship		

The Program Objectives of Operational Excellence will be integrating consumer information, increase speed to improve customer experience, and point of sale optimization. Table 10 below shows these program activities.

Table 10. Program Activites For Operational Strategy

No	Program Activities
1	Integrating consumer information
2	Increase speed to improve costumer experience
3	Point of sale optimization

Table 11 shows the action steps for Operational Program, with the responsible party and time frame of the action.

Table 11. Action Steps for operational strategy

No	Action steps	Responsibility	Week
1	Prepare and search database	OO	1
	Data cleansing		
	Using single identification file (SIF)		
2	Measure current performance	OO	2
	Benchmarking to competitor		
	Role play and real play to enhance front line skills		
	Simplify transaction process		
3	Prepare sales kit of bundling product	OO	3
	Setting the theme for banking hall		
	Advertising inside banking hall		

The Program Objectives Go ETHICS. ETHICS is acronym for corporate shared values that are Excellence, Teamwork, Humanity, Integrity & Customer Focus. These Objectives will be obtained by conducting three program activities, which are developing competency, No fraud policy, and Zero defect. Table 12 and 13 shows these program activities and action steps.

Table 12. Program activities For HR Strategy

No	Program Activities
1	Developing competency
2	No fraud policy
3	Zero defect

Table 13. Action Steps for operational strategy

No	Action steps	Responsibility	Time Frame
1	Weekly quiz of SOP	Kepala KCP	whole year
	Setting reward/punishment for quiz scoring		
2	Internalization shared value	Kepala KCP	
	Eyeblow (whist blowmechanism)		
	Setting religious activities once a week		
	Role model		
3	Setting reward/punishment for defect	Kepala KCP	
	Reading and discussion twice a week		

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